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PART XVI.

FURTHER CORRESPONDENCE

RESPECTING THE

FINANCES OF TURKEY.

1895.

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CONFIDENTIAL.

Further Correspondence respecting the Finances of Turkey.

Part XVI.

No. 1.

Sir P. Currie to the Earl of Kimberley.—(Received February 22.)

(No. 101. Confidential.)

My Lord, *Constantinople, February* 8, 1895.

MR. VINCENT CAILLARD informs me that since his return he has had an interview with the Turkish Minister of Finance, who informs him that the deficit for the financial year ending in March next will amount to £T. 1,800,000. He attributes this deficit mainly to a fall of 40 per cent. in the tithes owing to the reduction in the price of agricultural produce.

The Turkish Government are not at present in a position to raise a loan, and it is probable that the deficiency will be met by a conversion of the Customs and Fisheries loans, and by a prolongation of the Régie Concession.

Mr. Caillard calculates that the latter operation would produce about 1,000,000*l.* It is likely that the deficit will be still heavier next year owing to the increase in the railway guarantees, and there does not appear to be any source from which it can be met unless the proposed arrangement respecting the spirit duties should receive the assent of the Powers, and be put in operation before the end of the coming financial year.

I have, &c.
(Signed) PHILIP CURRIE.

No. 2.

Sir P. Currie to the Marquess of Salisbury.—(Received July 15.)

(No. 463.)

My Lord, *Constantinople, July* 11, 1895.

I HAVE the honour to forward to your Lordship herewith copy of a Report which I have received from Major Law on the finances of the Ottoman Empire.

I have, &c.
(Signed) PHILIP CURRIE.

Inclosure 1 in No. 2.

Major Law to Sir P. Currie.

Sir, *Constantinople, July* 11, 1895.

I HAVE the honour to inclose herewith a Report on the Finance and Financial Resources of the Ottoman Empire.

Owing to the almost complete absence of statistical information of reliable character, it is impossible to present anything approaching a complete Report on Ottoman finance. There is no publication of the annual Budget, nor, except as regards the revenues administered by the Council of the Public Debt, are any Returns of revenue available from public sources. The greatest secrecy is maintained concerning the revenue and expenditure of the Empire, and such information as is from time to time obtainable from private sources is too disjoined and uncertain to afford a basis for a really complete and satisfactory exposition of the situation.

At the same time, and notwithstanding the unavoidable deficiencies which are immediately apparent in my Report, I think that the information I have collected may suffice to give a fair idea of the general position. This position may be briefly summed up as follows:—

There is a revenue dependent on agricultural prosperity, which, under the existing system of administration, shows but little natural elasticity, and which is now seriously prejudiced by the fall in the prices of agricultural produce—there is a steadily growing Budgetary deficit, which this year reaches some 2,500,000*l.*; and there remain but few opportunities for the repetition of such financial operations as those by which temporary relief has been frequently obtained during the last ten years. On the other hand, there are valuable sources of revenue in the tithes and customs, which, through maladministration, fail to give proper returns to the State, and if strong measures were taken to secure the full returns from these taxes, and certain economies were made in the expenditure, Budgetary equilibrium might be attained at an early date.

The financial position is undoubtedly very serious, but it is perhaps advisable that I should here point out that the difficulties which I have exposed in my Report do not of themselves necessarily affect the position of those creditors of Turkey whose money is invested on the security of the revenues administered by the Council of the Public Debt. As long as the International Agreement is maintained, under which the International Council derives its authority, the revenues administered should, I think, maintain their present satisfactory level.

I have, &c.
(Signed) E. Fg. LAW.

Inclosure 2 in No. 2.

Notes on the Finance and Financial Resources of the Ottoman Empire.

The Budget.

IT is exceedingly difficult to seriously discuss the figures of revenue and expenditure, and it is absolutely impossible to make a really satisfactory examination of the annual Budget, for the simple reason that since 1888 no complete statement has been allowed to pass into the hands of even the most privileged of the public. I am informed that since the great reforms accomplished in the Ministry of Finance by the last Minister, the late Agop Pasha, a tolerably regular system of accounting is maintained, and that the responsible Minister at least is in possession of the figures from which a fairly reliable Budget might be produced. But whatever may be the information at the disposal of the Finance Minister, the greatest precautions are taken to prevent the enlightenment of the public. This fact, in itself, condemns the present financial system, and justifies the suspicion that the figures, if produced, might prove unsatisfactory.

The Revenue.

Budget of 1888.

In Table I, I have reproduced, from a reliable document, the revenue side of the Budget of 1888, and I have also set out in similar tabular form such information as I have been able to obtain from various sources concerning the revenue of 1894.

Figures for 1894.

The figures I have obtained for 1894 are incomplete, but, to maintain the form of the Budget of 1888, I have filled up the blanks by reproducing the figures for 1888, and I arrive at my total of revenue by the assumption that these figures have remained unchanged. In the Budget of 1888, the figures missing for 1894 amounted to 1,346,556*l.*, or, excluding the revenues which have been assigned to the Administration of the Public Debt, to as nearly as possible 10 per cent. of the total. I do not think it likely that any great changes have occurred in these comparatively unimportant items (which are specially noted in my Table), but, if there is a difference of even 20 per cent., such a change would only make a difference of 2 per cent. in the total, which is the most important figure. The complete absence of information about certain items does not, however, end the difficulty. Unfortunately, I cannot be sure even of those figures which I have been given, but, though I cannot guarantee the accuracy of any particular item, I think that the general situation is sufficiently correctly indicated. Except in the case of the conceded revenues, there is no reason

why the percentages noted for 1888 should not have been fairly maintained, and, therefore, with due attention to the figures for 1888, the Table I have prepared may, I hope, be usefully studied.

Inelasticity of revenue.

In comparing the Returns for 1888 and 1894, the most striking feature is the apparent inelasticity of the revenue, except as regards that part, the collection and administration of which has been intrusted to the Council of the Public Debt. The conceded revenues have increased by about 12·1 per cent. during the last six years, whilst during the same period the total of other revenues would appear to have decreased by some 126,000*l.*, or by about 0·86 per cent. It is unfortunately impossible to form any opinion as to what share in the increase of the conceded revenues is due to greater efficiency in administration, and what share should be attributed to a natural growth of the resources of the Empire. It would seem, however, that at least a certain proportion of the increase noted must be due to the latter cause, and therefore the absence of any improvement in the Returns of other revenues would appear to require some special explanation.

Comparison with conceded revenues.

Falling off in 1894.

Assuming the figures of Table I to be fairly correct in the aggregate, this explanation may perhaps be found in the following considerations. It is to be noted that, according to the Table, the Returns from the two items of tithes and customs, together amount to considerably over 40 per cent. of the unassigned revenues, and whilst it is particularly in these two items that we should expect to find evidence of any elasticity of revenue, the figures show that, as compared with 1888, the falling off in the tithes and customs more than accounts for the total decrease in the Returns for 1894.

Noted in Tithes and Customs.

Tables II and III show the progress of the tithes revenue under other conditions. The figures in Table II are reliable, and are very striking. They show clearly that the effect of regular administration on the tithes revenue was an improvement of more than 10 per cent., and that where the agriculturists are assisted by the introduction of railways, even extraordinary results may be obtained. This Table shows that the portion of the tithes collected by the Administration of the Public Debt in districts affected by the new railways increased in four years by fully 70 per cent. This brilliant improvement was, however, in some part due to the prosperity naturally induced by a purely temporary cause, namely, the construction of the railways themselves, bringing into the districts concerned a large body of consumers employed on the works, and in many ways affording an advantageous market for the produce and labour of the local population. The great hopes raised by the bright promise of the four years dealt with in the Table have, however, received a rude check in the very miserable results of the tithes collection in 1894. The special portion of the tithes collected by the Council of the Public Debt, and assigned to the kilometric guarantee of the Anatolian Railway, and which, from £ T. 141,482 in 1889, had increased to £ T. 209,625 in 1893, fell in 1894 to £ T. 102,922. The only consolation which can be found for this most alarming circumstance is, that the very suddenness of the collapse proves that it must have been largely, if not entirely, due to abnormal conditions, and these abnormal conditions are sufficiently apparent in the outbreak of cholera, the serious failure of the harvest in the districts concerned, and the extraordinarily rapid and disastrous fall in the price of produce, particularly cereals, on the value and production of which the tithes returns chiefly depend. It may reasonably be hoped that such a combination of disasters will not occur again, but it is evident that the tithe revenue is somewhat precarious, and it is not likely quickly to recover from the effects of the general fall in the prices of agricultural produce.

Tithes administered by Public Debt Council.

Tithes administered by Government.

Table III shows the advance in the tithe revenue between the year 1888 and the years 1893 or 1894* in those vilayets for which I have been able to obtain the figures. These are results obtained without the intervention of the Administration of the Public Debt, but though the general impression produced by these figures is doubtless correct, no trust can be placed in the accuracy of individual items, as no really reliable sources of information are available. Further, these figures fail to show the progress or decline of the Returns during the last two or three consecutive years, and therefore it is impossible to say to what extent the revenues they represent have suffered from the same causes as those affecting the similar figures in Table II. It will be observed, however, that whilst, with the single exception of the Returns from the Vilayet of Erzeroum (which may be incorrect, or may be susceptible of some special explanation), the tithes for 1894 show a falling-off as compared with 1888, the figures for 1893 show a considerable increase, and, as already observed, 1893 was the more normal year.

* The figures for 1894 have been taken where these are available, but where they could not be obtained those for 1893 are given.

Stagnation in Customs revenue.

The revenue from customs annually produces some 2,000,000*l.* The absence of progress in this branch of the revenue may, I think, be accounted for without assuming complete stagnation in the economic condition of the country. The customs duties in Turkey are levied on the basis of an *ad valorem* tax on importation, and as the prices of nearly all commodities have fallen heavily during the period under consideration, the bare maintenance of the customs receipts at the original figure, would show considerable progress in the quantities of imports, and a trifling falling-off certainly cannot be considered as indicating any serious decline of general prosperity.

Customs administration.

Complaints are made that trade is hampered by the severity with which Regulations are often enforced by the Customs officials at the principal ports, but such severity is not invariable, and the difficulties encountered by petty traders and new firms are not experienced by many of the more important old-established mercantile houses. It is said, however, that the revenue suffers from the comparative facilities enjoyed by the latter, and their anxious protests against all changes likely to lead to real reform show the value which they attach to their position under the present system. Even more serious than the loss caused by irregularities in the Custom-houses is that due to the smuggling openly carried on, with the connivance of the Customs guards, along the long line of sea and land frontier. A curious feature of the system of appointment of Customs guards is that the original appointment is very frequently given by superior order to some favoured individual, and without the concurrence of the responsible Minister of Customs. The fortunate recipient of such an appointment, impressed doubtless with his inability to satisfactorily fulfil the duties of his post, generally introduces a substitute, to whom he assigns a portion of his salary. But this does not end the complication. In his turn the substitute may discover it to be his duty to find a sub-substitute, and the latter is finally invested with the authority of office, but accompanied by so small a proportion of the original mediocre salary that it becomes a necessity for him to find means of increasing his income, and, unfortunately for the revenues of the State, such means are ready to his hand. It is not within the scope of this Report to criticize the details of the Customs Administration, but I have mentioned one or two points to demonstrate the hopelessness of serious improvement in the returns under the present system, and at the same time to show the certainty of a considerable increase of revenue if even mild reforms were instituted.

Revenue injuriously affected by system.

Other heads of revenue.

After tithes and customs, the property tax, the sheep tax, and the licence tax on trades and professions, together amounting to about 30 per cent. of the total revenues, are the most important taxes, by the returns from which economic progress may be fairly judged. The figures which I have been given for the revenues from these sources in 1894 show a slight increase as compared with 1888, but this increase is so trifling that, notwithstanding the explanations which may be accepted for the stagnation in the returns from tithes and customs, the conclusion is inevitable that there is a general absence of elasticity in the revenue, which is an unfortunate feature in the finances of the country. The most hopeful assumption is that this want of elasticity may be in great part due to defects in administration, and in addition to what I have already said on this subject I may refer to the remarkable progress shown in Table IV, in the returns of the revenues administered by the Council of the Public Debt, as affording good grounds for such an assumption. Defective administration is susceptible of improvement, but the question of the probability of effective measures being taken to secure this improvement remains a serious one.

General stagnation.

Revenues in the Provinces.

Before closing this brief consideration of the revenue, I would call attention for a moment to Tables V and VI. Table V shows the percentages of revenue encashed by the different Provincial Administrations, and by the centralized Departments in the capital. This statement would be interesting if it could be compared with a similar statement for the current year, or for 1894, but no data are available for such a comparison, and, meanwhile, I can only register my figures, in the hope that they may prove more useful at some future date, when the present policy of secrecy in financial matters shall have been abandoned. Table VI shows the progress of the provincial revenues in those vilayets for which I have been able to obtain more or less reliable and complete information. I present this Table for what it is worth, but though the figures tabulated appear fairly favourable, the information is not sufficiently complete to justify the assumption that the impression produced is certainly correct.

Arrears of taxation.

In the foregoing pages I have not dealt with the question of arrears of taxation. That the payment of taxes is irregular is certain, and it is a matter of common knowledge that the revenue suffers from their defective collection, but it is impossible to obtain any information as to the percentage of loss from this cause. The only figure I have found relating to this subject is an estimated loss of 5,000,000 piastres on

employed to meet the necessities of the moment, without a most earnest endeavour to cope with the real difficulty, namely, the excess of expenditure over revenue, the most serious consequences will inevitably follow.

Notwithstanding this very critical position of affairs, I do not consider the situation as beyond remedy, provided that energetic and radical measures are promptly taken in the right direction. Opinions will naturally differ as to what should be done, and doubtless better measures may be proposed than any which I can suggest, but I will briefly mention those which my examination of the situation lead me to think would prove beneficial. First, economy should be rigorously enforced all round, and particularly in the Ministry of Marine, and in the Arsenal and Dockyard expenditure, and, whilst in the Departments mentioned, a saving of ⅓ of a million might be effected, desirable economies in other directions should furnish the means for increased expenditure in those branches of the administration, the efficient working of which is crippled for want of means, to the prejudice of the welfare of the population, and consequently also of the revenue. Assuming that this economy of ⅓ of a million might be realized, it would still, to attain an equilibrium in the Budget, be absolutely necessary to increase the revenue by at least 1 million. As I have stated, no important or immediate increase of revenue can be hoped for under the present system, and I have shown that under the best possible administration, it is only in the returns from Tithes and Customs that any immediate improvement could be effected. The whole system under which these taxes are collected is so radically wrong, and the necessity for prompt reform is so urgent, that I believe the only satisfactory action would be to immediately hand over both administration and collection of these revenues to some independent institution, which, as a matter of business, should have a direct interest in their proper management and development. It would probably not be difficult to find financiers who would undertake the management of the Customs, and guarantee an annual revenue to the Government, on an agreed and steadily increasing scale, and, if sufficient freedom were allowed in organizing a service for the repression of smuggling, it ought to be possible to guarantee an increase of 500,000*l.* in the annual returns at an early date. The collection of the Tithes would, perhaps, be best intrusted to the Council of the Public Debt, if that institution would undertake the task, since it has already had much experience in the collection of that portion of this revenue which has been assigned as security for various obligations of the State. An increase of 10 per cent. in the Tithes would amount to some 400,000*l.*, and I have shown that it would not be unreasonable to anticipate such an increase, as the result of really good management.

Proposed remedies for financial difficulties.

In addition to the 900,000*l.*, by which I think that the returns from Tithes and Customs might be increased, under the conditions I have suggested, a further increase of revenue might be obtained from the profits of the tobacco Régie, in which the Government has a third share. I am informed on competent authority that with reasonable changes in the regulations under which this Company works, an additional profit of 150,000*l.* per annum might easily be obtained, and the Government share of such additional profits would be 50,000*l.*

Taking all these augmentations of revenue together they amount to 950,000*l.*, and if such general and far-reaching reforms as I have suggested, were adopted, the total addition to the revenue might probably be brought up to the full sum of 1 million in the course of the next two years.

It is true that an economy of 750,000*l.* in expenditure, with an increase of 1,000,000*l.* in revenue, would not suffice, if no arrangement were made to check the growth of the liability on account of the railway guarantees, but I see no reason why this liability should not also be taken in hand. It is a necessity of the situation to reduce both the present and the prospective liability on this account to the possible minimum. A most important step would be the revision of the tariffs of the existing railways, so as to give some real encouragement to traffic, since in many cases the present tariffs are prohibitive, and the conditions of their Concessions unfortunately give the railway Companies a direct interest in putting obstacles in the way of the development of traffic. As regards those railways for which Concessions have been granted, but where construction has not yet been commenced, endeavours should immediately be made to come to arrangements with the concessionnaires to abandon, or at least to postpone, their undertakings, and I have reason to believe that in more than one case such arrangements could be made on fairly reasonable terms.

There remain for consideration, the questions of the desirability of raising, and the proper employment if raised, of the sum of 2 millions, which I have shown might probably be obtained by conversions of loans, and by making new arrangements

with the Régie Company. I believe it to be most necessary to undertake these operations immediately, since certain of the claims in connection with the floating debt are most pressing, and, further, whilst it will take time to make any satisfactory arrangement for increasing the revenue, it is estimated that, as a result of recent, special, prejudicial influences on the returns, the deficit for the current year will amount to some 2½ millions. Something must be done to cover at least a portion of this abnormal deficit. The 2 millions obtainable from conversions would not suffice to obviate considerable difficulty in meeting the situation during the next two years, but if prudently employed it would do much, and the general confidence which would be felt if serious reforms were introduced in financial administration would also materially facilitate the task of an energetic and capable Finance Minister.

The final and most important question which necessarily presents itself is, Will the Ottoman Government recognize in time the extreme gravity of the situation; and, will the necessity of serious and radical reform be frankly accepted?

(Table I.)—Totals and Percentages of different Classes of Revenue.

	1888 Totals.	1888 Percentage.	1894 Totals.
	£		£
Tithes (including tobacco)	3,960,620	25·11	3,818,181
Tax on real property (Verghi)	2,283,340	14·70	2,295,454
Customs	1,864,636	12·00	1,818,181
Tax on sheep, camels, and hogs	1,668,211	10·74	1,681,818
Sundries from unnamed Public Departments ..	931,972	6·00	931,972*
Tax on trades and professions (Temettu) ..	795,513	5·12	795,454
Exemption from military service	743,674	4·79	772,727
Registration and transfer of real property (Tapou) ..	326,666	2·11	218,181
Post and telegraph	309,091	1·99	318,181
Mines and forests	220,157	1·42	272,727
Stamps and fees (Tribunals)	206,470	1·33	209,090
Sundry dues	200,882	1·29	200,882*
Sundry receipts	122,793	0·79	122,793*
Municipal taxes paid to the Treasury	90,909	0·60	90,909*
	13,603,934	88·00	13,546,550
Conceded revenues†	1,863,819	12·00	2,089,371
Totals	15,527,753	100·00	15,635,921

* Figures for 1888 repeated, no figures being available for 1894.
† Salt, stamps, spirits, silk, fisheries, Régie annuity, and share of profits, and tobacco arrears.

(Table II.)—Movement of Tithes Revenue assigned to Public Debt Administration.

	Years.	Value of Tithes.	Increase or Decrease.	Percentage of Variation.	Names of Vilayets.
		£ T.	£ T.	Per cent.	
In districts affected by railways	1890	171,737	..	..	Angora, Ismidt, Broussa, Mitylene.
	1891	246,172	+ 74,435	+ 43·3	
	1892	269,746	+ 98,009	+ 57·0	
	1893	292,738	+ 121,001	+ 70·4	
In districts non-affected by railways ..	1890	84,620	..	..	
	1891	85,637	+ 1,017	+ 1·2	
	1892	83,216	— 1,404	— 1·6	
	1893	94,367	+ 9,747	+ 11·5	

(Table III.)—Movement of Tithes Revenue (1888 to 1893–94.)

Names of Vilayets.	Years— 1888.	1893.	1894.
	£	£	£
Salonica	242,622	..	230,000
Yanina	78,285	..	75,000
Broussa	251,883	309,267	..
Aidin (Smyrna)	400,534	456,509	..
Archipelago	13,868	16,204	..
Crete	51,750	103,796	..
Koniah	115,947	160,434	..
Castamouni	97,136	155,532	..
Trebizond	153,860	..	125,504
Adana	42,779	100,716	..
Aleppo	185,219	..	148,571
Mamuret-ul-Aziz	76,860	75,000	..
Diarbekir	63,674	..	67,166
Erzeroum	99,378	..	172,356
Van	31,118	..	31,035
Syria (Damascus and Beyrout) ..	237,774	..	240,555
Tripoli	30,456	59,582	..
Bigha	36,880	46,510	..
Jerusalem	43,155	..	34,420
Totals	2,274,178	2,639,117*	

* In this total, 1893 and 1894 are treated as one year.

(Table IV.)—Returns of Revenues administered by the Council of the Public Debt.

Revenues.	1886–87.	1887–88.	1888–89.	1889–90.	1890–91.	1891–92.	1892–93.	1893–94.	1894–95.
	£	£	£	£	£	£	£	£	£
Salt	682,228	665,113	693,338	722,058	699,887	730,354	755,693	774,076	
Stamps	162,676	156,274	171,974	186,053	203,979	209,373	201,161	211,959	
Spirits	222,572	218,110	221,653	222,461	226,656	250,418	254,814	255,796	
Fisheries	37,104	40,627	42,436	42,726	47,307	48,415	44,405	40,058	
Silk	31,909	34,717	25,846	32,281	31,251	45,895	56,410	66,740	
Total ..	1,136,489	1,114,841	1,155,241	1,212,579	1,231,080	1,290,485	1,312,483	1,348,629	
Tobacco tithe ..	85,642	78,411	69,041	78,157	90,102	92,736	111,252	99,981	
Régie annuity ..	759,069	757,216	753,225	755,320	756,431	755,154	778,909	792,065	
Totals ..	1,981,200	1,950,468	1,978,507	2,046,056	2,077,620	2,138,375	2,202,644	2,240,675	

(Table V.)—Totals and Percentage of Receipts from different Provinces: 1888.

Provinces	Total.	Percentage.
	£	
Smyrna	960,071	5·90
Broussa	731,948	4·45
Salonica	709,464	4·35
Adrianople	653,860	4·09
Syria (Damascus and Beyrout)	584,057	3·58
Constantinople and Chataldja	520,099	3·23
Koniah	453,805	2·78
Aleppo	415,111	2·54
Yemen	405,017	2·48
Monastir	384,931	2·35
Angora	378,854	2·33
Kossova	364,603	2·23
Castamouni	343,000	2·16

Provinces.	Total.	Percentages.
	£	
Sivas	329,379	2·62
Yanina	274,277	1·68
Trebizond	243,456	1·49
Baghdad	226,230	1·38
Erzeroum	216,018	1·32
Mossoul	193,012	1·18
Diarbekir	181,902	1·13
Adana	180,805	1·12
Mamuret-ul-Aziz	174,277	1·06
Bassorah	173,601	1·06
Archipelago	156,210	0·95
Serfidje	147,040	0·90
Bitlis	130,485	0·80
Tripoli	116,497	0·70
Van	109,882	0·67
Ismidt	106,278	0·65
Jerusalem	102,174	0·63
Bigha	100,066	0·60
Crete	72,434	0·45
Scutari	47,420	0·30
Zor	40,261	0·24
Lebanon	37,160	0·23
Benghasi	35,434	0·22
Hedjaz	25,403	0·16
	10,320,935 — 45,000*	63·41
	10,275,935	
Public Departments	4,779,152	29·24
Tributes	1,047,348	6·35
Municipal taxes	90,000	0·55
Tobacco tithes	90,000	0·55
Totals	6,282,435	100·00

* Loss on sheep tax.

(Table VI.)—Comparison of Revenue Receipts in certain Provinces.

Provinces.	1888.	1893 and 1894.	Increase.	Decrease.
	£	£	£	£
Erzeroum	216,018	293,969	77,951	..
Brousa	731,948	763,074	31,126	..
Smyrna	960,071	925,665	..	34,406
Archipelago	156,210	148,473	..	7,737
Crete	72,434	117,814	45,380	..
Konieh	453,805	445,150	..	8,655
Trebizond	243,456	333,568	90,112	..
Adana	180,805	244,657	63,852	..
Mamuret-ul-Aziz	174,277	165,068	..	9,209
Syria (Damascus and Beyrout) ..	584,057	585,906	1,849	..
Tripoli	116,497	146,336	29,839	..
Bigha	100,066	107,524	7,458	..
Jerusalem	102,174	117,072	14,898	..
Benghasi	35,434	37,530	2,096	..
Castamouni	343,000	349,219	6,219	..
Total	4,470,252	4,781,025	+ 310,773	

N.B.—Where no data is available for 1894 the figures for 1893 are given, the years 1893 and 1894 being considered as a single year for the purposes of the comparison instituted.

Ottoman Treasury. This liability is due to the considerable amount of the kilometric guarantees which have been granted, with all the concessions for railway construction given by the Government during the last few years. The details of these guarantees are shown in Table XII, and the gross annual total is seen to amount to over 2,700,000*l.* The full amount of this liability will never fall on the Treasury, as the earnings of the various railways will make a most important reduction in the sum, but until the different lines have been completed, and have been working for some time, it will be impossible to form any really accurate estimate of what the final liability may prove to be. In 1894, the sums paid to the railway Companies on account of kilometric guarantees amounted to 270,791*l.*, but this figure cannot serve as a guide for estimating future liability, as many of the sections on which payments were made, were only opened during the course of the year, and in only one instance did the liability extend over the full twelve months. A very rough estimate may be made by taking the ratio between the total liability on account of the revenue guaranteed to the Ismidt-Angora section of the Anatolian Railway and the amount actually paid to the Company in 1893, and assuming that this will prove to be the permanent ratio between liabilities and disbursements on account of the total guaranteed mileage when all the lines are completed. The result of taking this ratio as a basis for calculation is to show a final annual liability of about 1,500,000*l.*, and though this is a most haphazard estimate, it is possible, in view of all the circumstances, that the sum arrived at is not exaggerated. If the payment on account of guarantee made to the Anatolian Railway Company in 1894 were taken as the basis for calculation, the future total liability would work out at a much higher figure, but 1894 was undoubtedly an unfortunate year for the provinces in which that railway is situated, and it may be hoped that the traffic Returns of 1893 will prove to be nearer a normal average for the whole country in future and more prosperous seasons.

Financial Requirements and Resources.

Having thus briefly considered the revenues and liabilities of the Ottoman Treasury, I turn to the consideration of the means of meeting existing and acknowledged financial requirements. It has been shown that normal expenditure exceeds normal revenue, and it will clearly not be exaggerating the necessities of the situation if we assume that, to arrive at a satisfactory Budgetary equilibrium, the revenue must be increased or the expenditure be reduced by, at least, 1½ millions. It has also been shown that there is a floating debt of some 3½ millions which requires settlement, and, further, that the State has undertaken obligations in connection with the railway guarantees which, when fully matured, may demand a further increase of revenue of, possibly, another 1½ millions to satisfy. To sum up the situation, besides the necessity of making some arrangement to settle the floating debt, it is, in any case, necessary to find the means of meeting a present Budgetary deficit of about 1½ millions,* and if no arrangement can be made to reduce the impending liability on account of the railway guarantees, another 1½ millions must annually be found, at no distant date, to meet the claims which will arise on this account. Liabilities to be met.

It is easy to point out the difficulties of the situation. It is less easy to suggest a remedy. In such circumstances, it is usual to cry out for a policy of financial retrenchment. I do not believe that, in this case, any important result could be achieved by a simple policy of retrenchment. The annual expenditure on the combative Services is certainly large in proportion to the total revenue, of which it absorbs fully 50 per cent.; but if the extent of the Ottoman Empire, and the necessities of frontier defence are considered, the cost of the military and naval establishments is modest as compared with the expenditure for similar purposes in other countries. I have been informed, by competent authority, that a considerable saving might be effected in the Dockyard and Arsenal expenditure. Nearly a million is spent annually in these establishments, with the idea that Turkey should be able to produce her own war material, and with the result that inferior material is produced; and, owing to unfavourable conditions for manufacture, and, still more, to corruption and mismanagement, the cost of production is absurdly extravagant. If the Government establishments were limited to the manufacture of powder and cartridges and to repairing work, better material could be obtained for the Services, and a most important economy effected. Besides the necessity for reducing the manufacturing establishments, there is urgent need for reorganization and economy in the central Possibility of retrenchment.

* Not including the new and increasing liability for railway guarantees.

administration of the War Office, where over 1,800 officials are employed; and, further, the number of superior officers drawing high pay and doing nothing is altogether excessive. Admitting that great and most useful reforms might be made in the directions I have indicated, the severest economist would, however, hesitate to promise a reduction exceeding 750,000*l.* in the cost of the army and navy. In the other Departments of State, although many reforms and economies might be effected, there is much general need for increased expenditure to secure efficient and honest administration.

As a result of the foregoing considerations, the conclusion is inevitable that the immediate difficulties of Turkish finance are not to be met by simple retrenchment. It would require a greater reduction of expenditure than appears possible, and very much greater than is probable, to meet the difficulties of the situation. Financial operations can only postpone serious difficulties for a very brief period, and a considerable increase in the annual revenue would seem to be the only sound remedy. I propose, therefore, to examine in turn the possibilities of improving the revenue Returns from existing sources, or of finding new sources of revenue, and, finally, the possibility of obtaining temporary relief by financial expedients.

Possible increase of tithes.

The revenue from tithes amounts to some four millions sterling, and, under certain conditions, there would appear to be every possibility of securing an immediate and important increase in the returns. At p. 31 I have already discussed the tithes returns, and shown their rapid increase under favourable circumstances and under efficient administration. I have, however, also pointed out the effects of the general fall in the prices of agricultural produce; and I must add that, during the present year, this revenue will certainly suffer from the disquietude produced by the Armenian agitation, and from the measures which the Government has considered it necessary to take in consequence thereof. The most successful, and in most districts, the only important, merchants and agents are Armenians; and the restrictions on their liberties, which have not been confined to the Armenian country, are most prejudicially affecting the course of trade, and consequently diminishing the revenue. The tithes returns must from their nature remain uncertain, but with care and good fortune I think that, in the course of four or five years, the average yield might be increased by 10 to 20 per cent. Under existing circumstances, however, the realization of such an increase cannot be anticipated, and there is little prospect of the immediate improvement necessary to relieve the urgent necessities of the Treasury.

Possible increase of Customs.

Another important item of revenue is the Customs, which annually yield some two millions. It is certain that this revenue might be greatly increased, at very small cost, by improving and simplifying the service, and showing some little determination to put down smuggling. I have already pointed out the serious effects of defective administration on the Customs returns. There are no data from which an estimate can be formed of the real loss to the Treasury, from fraud and maladministration; but capable judges maintain that, with a little reasonable improvement in the system, the Customs revenue might be increased by 25 per cent., and I have little doubt that serious reforms would produce even greater results.

Prospects of other classes of revenue.

Among the most important, in amount, of the items figuring in the annual Budget, is the conceded revenues, but the appearance of this item in the Budget is only a matter of account, and the fortune of the conceded revenues, no part of which reach the public Treasury, cannot affect the equilibrium of the Budget. The only other items of revenue, the annual returns from which exceed 1 million, are the property tax ("verghi") and the sheep tax. The property tax is a heavy impost, which shows no sign of elasticity, and the collection of the sheep tax is so simple an affair, that it is improbable that any important increase in the returns could be secured by a better administration.

The remaining items of revenue are all of minor importance, and whatever beneficial results might be obtained by well-considered reforms and more reliable collection, it is certain that they offer no sufficient opportunity to a reforming financier, seeking to re-establish Budgetary equilibrium. The consideration of the revenue side of the Budget leads then to the conclusion that, even if the most far-reaching and judicious reforms were immediately introduced, there would be no likehood of any early increase in the revenue from existing sources, exceeding 1 million, and that nearly the whole of such increase as might be secured would have to be found in the improvement of the returns from tithes and customs.

General prospects of revenue.

Possible new sources of revenue.

I now turn to the question of the possibility of finding new sources of revenue. New taxes must, if in the form of indirect taxation, fall principally on the population of the towns, and if in the form of direct taxation, then chiefly on the

agricultural population. Taxes on property, on licences for trades and professions, and a stamp tax are already levied, and it is difficult to add anything further in the way of direct taxation of the town population, whilst it is almost impossible to devise any form of indirect tax, the right to levy which would not be contested as a breach of international agreement. In illustration of this difficulty I may point out that, in other countries, taxes on matches, petroleum, cigarette paper, and alcohol are usual and profitable sources of revenue, but that as all these articles of common consumption are important staples in the foreign import trade into Turkey, the imposts on which are definitely regulated by international agreement, any attempt to raise further revenue from them, beyond that derived from the accepted customs duties, is sure to meet with the strongest opposition. The possibility of augmenting the revenue by introducing some new and special tax on alcohols has long been considered, but, though many ingenious proposals have been made with this object in view, all such proposals have hitherto been held to involve some infringement of international agreement. It would appear, therefore, almost impossible to increase the revenue by such indirect taxes as would fall chiefly on the town population, and the impoverished condition of the peasantry, with which I deal more particularly elsewhere, absolutely prohibits any idea of the further taxation of this class of the population.

Difficulties caused by international agreements.

The conclusion necessarily arising from all these considerations is that, with the present system of administration, the necessary resources to meet the growing and constant deficiency of the revenue cannot be found either in existing taxes or in new forms of taxation.

Possible financial operations.

It only remains, then, to consider what temporary relief can be obtained from such financial operations as the credit of the country or special circumstances may permit. Under ordinary circumstances, the commonest and simplest form of meeting immediate financial difficulties is the raising of a new loan, by pledging the credit of the country in the foreign money markets, and such operations are only prohibited by the absolute failure of all credit, or by credit being so weak that the only conditions on which a loan can be raised are too manifestly suicidal.

Turkish credit.

As regards then the question of financial operations, the first subject for consideration is the question of the existence and condition of Turkish credit in the European money markets. Referring once more to Table IX, it is to be observed that since 1888 the rate of interest on new loans has, with the exception of the Egyptian Tribute Conversion Loan, been uniformly 4 per cent., and the sinking fund has not exceeded 1 per cent., whilst the price of issue has steadily advanced. Judged only from this point of view, the position of Turkish credit would appear to be eminently satisfactory; but it must be remembered that all the loans of the last few years have been secured on the proceeds of special sources of revenue, which have been handed over to the administration of the Public Debt for the express purpose of guaranteeing the service of these loans, and that, consequently, it is solely the credit of this foreign administration which has been appreciated by the money market, and recent financial operations offer no evidence of the estimation of Turkish credit, independent of this international control. This is a peculiar position of affairs, and though pretty generally understood, it is necessary to refer to it explicitly in considering the question of Turkish credit.

Credit through Council of Public Debt.

This question, then, divides itself into two heads, the independent credit of the Turkish Government and the limits of the credit which the Government can obtain through the intervention of the international administration. Now, there is no evidence that the Government by itself commands any credit, and in the absence of such evidence, and in view of the general circumstances of the case, it would seem fairly certain that, even at suicidal rates, the Turkish Government would find it difficult to obtain important financial assistance in the ordinary way, in the open market.

As regards the credit which may be obtained with the assistance of the Council of the Public Debt there are many details to be considered, but the general principle may be accepted, that there is a distinct limit to this credit which is determined by the amount of the revenues, which, after providing for the ordinary machinery of Government, can be alienated from the surplus to meet financial obligations, and that should the Government assign such sums that it can no longer command the means of subsistence as a Government, a crisis will arise which no international control can avert. The international administration, as an instrument of credit, will perish the day that it accepts the responsibility for the payment of sums which the Government cannot afford to furnish whilst maintaining its position as a Government. The facts which have been noted regarding the present condition and prospects of the Turkish revenue show incontestably that the Government cannot possibly find any surplus from present

revenues which could be hypothecated, and the administration of which the Council of the Public Debt could reasonably undertake as offering a marketable security for a new loan. It may therefore be assumed that neither through its own direct credit, nor by a repetition of the expedient of hypothecating revenues, and placing them under the control of the Public Debt administration, can the Government find the means of raising a sufficient sum to postpone its serious difficulties for any appreciable period.

Possible loan conversions.

The rejection of the idea of raising a loan by the hypothecation of existing revenues does not, however, exhaust the possibilities of financial operations. There still remains the possibility of obtaining money by the conversions of such earlier loans as were contracted under conditions more onerous than those which have since proved acceptable. An examination of Table IX shows that there are three such loans which it would appear might be profitably converted. These loans are the Société de Raccordement Loan of 1885, the Customs Bonds of 1886, and the Deutsche Bank or Fisheries Loan of 1888.

The Société de Raccordement Loan bears a charge of 7 per cent. interest and 1 per cent. amortization, and the outstanding nominal capital is about 7,780,000*l.* Now, the present annual charge for this loan is 78,174*l.*, and, judging by the conditions under which recent loans have been issued and the present price of Turkish stock, it might be found possible to issue a new loan on the original security at a price of not less than 80, with interest at 4 per cent., and a sinking fund not exceeding 1 per cent. If we assume that a new issue could be made under such conditions, the amount of the present annual charge, exceeding 78,000*l.*, would suffice for the service of a loan with a nominal capital of about 1½ millions, and, deducting the outstanding balance of the old loan, about 800,000*l.*, the Treasury might, without further charging the revenue, encash a sum of approximately 400,000*l.*

As regards the Customs bonds, on which the annual charge is now 354,545*l.*, this annuity would suffice for the service of a new loan of about 7 million pounds, with interest at 4 per cent., and a sinking fund of 1 per cent. If a loan of this amount were issued at 80, and the outstanding balance of the old loan (5,301,280*l.*) were paid off from the proceeds, the Treasury might encash a sum of about 370,000*l.*

Finally, if the conversion of the Fisheries Loan were effected, the present annual charge of 105,000*l.* would, at 4 per cent. interest and 1 per cent. sinking fund, suffice for the service of a loan of the nominal amount of about 2 millions, and, taking the price of issue at 80, and deducting the outstanding balance of the old loan (approximately 1,331,960*l.*), the Treasury might encash a sum of about 270,000*l.*

From these calculations it would appear that, by well-arranged conversions of the Raccordement, Customs, and Fisheries Loans, the Treasury might, if circumstances proved favourable, obtain about 1 million sterling.

Tobacco Régie.

Beyond the conversions above suggested, the only immediately apparent resource lies in the extension of the term of the Tobacco Régie Concession, and the modification, in the interests of the Régie Company, of the regulations under which that institution now conducts its business. It is impossible for any one not immediately connected with the concerns of the Régie, to estimate the cash value to the Company of such an extension of the term of their Concession, and of such modifications of their obligations and privileges as would appear reasonable and feasible, but I do not think that it would be an exaggerated estimate of the possibilities of the situation to assume that the Government might reasonably consent to such new arrangements as would be fairly valued at 1 million in cash.

Unsatisfactory financial policy.

I have thus shown that to meet a growing annual deficit, which already exceeds 1½ millions, no sufficient relief can be found in a reduction in the aggregate expenditure, nor, under the present system, in the increase of revenue from existing sources, nor in the introduction of new forms of taxation, and that, to settle the floating debt of some 3½ millions, or afford other assistance, it does not appear that a larger sum than 2 millions could be raised on reasonable terms. During the last ten years no serious effort has been made to face the real difficulty of annual and increasing Budgetary deficits. On the contrary, a succession of temporary financial expedients have been adopted in the raising of new loans, the conversion of old ones, the pledging of special sources of revenue, and the sale of Concessions. It must be admitted that the various financial operations have been conducted with remarkable skill, but the final result has been that the Budgetary difficulty has increased from the growth of the annual charge on account of the Public Debt, and that in the present extreme necessity, there are few resources left to meet the pressing requirements of an exhausted Treasury. If those few remaining resources, which I have indicated, are now, in their turn,

the sheep tax, estimated at about 183,000,000 piastres. This loss is equivalent to about 2¼ per cent., but the sheep tax is easy of collection as compared with the property, and many other taxes, and though it is a mere guess, I should say that 5 per cent. would not be an exaggerated estimate of the total loss through default of the taxpayers, and 5 per cent. on the gross revenue would amount to about 600,000*l.*

Expenditure.

Absence of information.

The question of expenditure is even more difficult to deal with than that of revenue, as even less information is obtainable. In Table VII, I have shown the figures of the Budget for the year 1888, and also a rough estimate of the expenditure for 1894, though in the latter statement I have been obliged, for want of information, to leave some very serious blanks. I will deal with the items, noted in these two statements, *seriatim*, and I will endeavour to show how they must be considered in attempting to arrive at a correct appreciation of the situation.

Civil List.

In the Budget for 1888, the first item is the Civil List. The figure here shown is the same as was given in the Budget for 1887. It is certain that the sum officially recorded falls far short of the expenditure of the Palace with its extensive ramifications throughout the provinces, but it must be remembered that the Crown owns enormous tracts of territory in some of the most fertile districts of the Empire, and that under remarkably capable management, the revenues of the Crown have for many years been increasing in extraordinary proportions. These private resources, which it is impossible to estimate, may sufficiently supplement the comparatively modest figure which appears in the Budget for the Civil List, and may possibly suffice to defray the heavy charges of Palace expenditure, and, therefore, though there may be doubts about the accuracy of the figure I have given, it may be quite correct. And if correct for 1888, there is no reason to suppose that it is incorrect for 1894.

War Ministry

Though much remains to be done for the reform of the War Office, it is universally admitted that the present War Minister is a capable administrator, and, notwithstanding a necessary increase of expenditure some four years ago for the organization of the Redifs (reserve), a considerable economy has been effected in the total charge for the army. The figure given for 1888 is, I believe, quite reliable, and there is not much reason to doubt that given for 1894, though possibly the latter should be somewhat higher.

Other Departments.

The next three items, Gendarmerie, Ministry of Marine, and Ordnance (the latter including Dockyard and Arsenal expenditure), are, I believe, fairly correct for both years given.

The sums noted for the Ministry of the Interior, the service of posts and telegraphs, and customs, and for mines and forests, are, I believe, correct for 1888. There is no special information concerning the expenditure in these Departments in 1894, but there are no grounds for supposing that there has been any important change in the last few years, and I have therefore repeated the figures for 1888.

The figure given for religious establishments, &c., is reliable for 1888, and, in the absence of further information on the subject, I have repeated it for 1894.

Sundries.

The amount put down for "other civil administrations and sundries" is obtained by deducting from a gross sum, which appears under this head in a summary of the Budget for 1888, the total amount distributed among the various Civil Departments specially noted above. Such "sundry" expenditure must recur annually, and I have therefore noted an approximately similar amount in the estimate for 1894.

Russian war indemnity.

The payments made by the Treasury on account of the funded Public Debt and the annual payment for the Russian war indemnity are known amounts, and the figures noted under these heads for 1888 and 1894 are correct. As regards the Russian war indemnity, certain other payments are made from time to time on account of arrears. I cannot fix the precise dates or amounts of such payments, but it is fairly certain that more than £T. 100,000 has never been paid in a single year.

The year 1894 is the second in which payments became due on account of the new railway guarantees. The figure noted is reliable.

Payments on floating debt account.

It is impossible to verify the payments actually made in any one year on account of the floating debt. The amount put down in the Budget for 1888 is doubtless correct as an estimate, but if it included only interest it would be entirely out of proportion to the estimated capital of this debt. It probably includes some intended payments on capital account, but if this is the case, it is doubtful if such payments were really made. It is more likely that, under the pressure of the general deficit, the greater part

of such payments were postponed, and a similar amount would appear in succeeding Budgets. This uncertainty about the charge on account of the floating debt is prohibitive of an accurate estimate of the real expenditure in any one given year, and is a most serious difficulty in considering the general situation. In the absence of any kind of information on this subject, I have been obliged to leave a blank under this head in my estimate for 1894, but, though it is useless to put down an imaginary figure, it is fairly certain that the amount to be properly inscribed in the Budget would not fall far short of 1,500,000*l.*, and it might exceed this sum.

Payments on settled debt account.

The payments made on account of the settled debt from the conceded revenues are established amounts, but though properly shown in the Budget their appearance is a matter of account, as precisely similar entries occur among the Budget receipts.

The final results, with the important reservations above mentioned, show a total for "ordinary" expenditure in 1888 of about 17½ millions, and nearly 15 millions in 1894, but to the latter must be added the considerable, though unknown, charge on account of the floating debt.

Extraordinary expenditure.

So far I have dealt with the expenditure classed as "ordinary," but there is also a heavy annual expenditure on "extraordinary" account. I have noted the items of extraordinary expenditure as estimated in the Budget for 1888, but, as in the case of payments on account of the floating debt, it is probable that the want of funds to meet such charges forcibly curtailed this expenditure. With an empty Treasury certain intended expenditure is necessarily abandoned, some is postponed, and some is incurred in such a manner as to swell the floating debt, and leave heavy, though uncertain, charges on the revenues of future years.

I have no estimate of the extraordinary expenditure in 1894 in my figures for that year, and I have been obliged again to leave a blank, where an important sum should properly be inscribed.

Deficit in 1888.

Taking into account extraordinary expenditure, the Budget for 1888 shows a deficit of nearly 3½ millions, and without extraordinary expenditure, there still remains a deficit of approximately 1½ millions. As regards revenue and expenditure, 1888 may be considered a normal year, and it is therefore interesting to consider how accounts can have been squared, with an estimated deficit of 3½ millions, which, if allowance be made for arrears in the collection of taxes, would probably be more correctly stated as 4 millions. It was in 1888 that the Treasury realized 1,050,000*l.* by the issue of the Deutsche Bank or Fisheries Loan, and this encashment reduced the deficit to 3 millions. According to the official statement, this deficit of 3 millions was almost entirely covered by the estimated receipts from extraordinary sources, amounting to 2,865,200*l.* These estimated extraordinary receipts are indicated as follows: a contribution of about 540,000*l.* from the Sultan's privy purse; 1,800,000*l.* loans from public establishments; 250,000*l.* loan from Public Works Department; and, finally, 280,000*l.* from the mines of Bulgarda. It is unnecessary to criticize the nature of these receipts, beyond remarking that, even on official showing, the great bulk were in the form of advances from Government Departments having no natural connection with the finances of the State, and consequently they must have entailed obligations for prompt repayment, and must therefore have increased the difficulties of succeeding years. It is, however, extremely unlikely that any such amount as 2 millions was really provided by Public Departments, for it is difficult to believe that any Departments were in a position to dispose of such a sum. Assuming, as I believe to have been the case, that the actual deficit, as far as concerned requirements for cash payments, was approximately met by the Deutsche Bank Loan, it is probable, as I have already suggested, that the cash expenditure, both for the floating debt and on extraordinary account, was cut down to a minimum, and that wherever possible, payments were postponed to a future season.

Deficit in 1894.

If we turn to the figures I have tabulated as an estimate for 1894, it will be seen that, without any entries either for the floating debt or for "extraordinary" account, the estimated expenditure is about 14,800,000*l.* The revenue for 1894, according to my estimate in Table I, should have been approximately 15,600,000*l.*, and, as according to the best information obtainable, the deficit for 1894 amounted to no less than 2½ millions, it would appear that, supposing my other estimates to be correct, the sums which should be inscribed for the floating debt and for extraordinary expenditure would together amount to about 3,400,000*l.* Reference to the estimates for 1888, where these two items were inscribed for an aggregate sum of about 3,600,000*l.*, shows that an estimate of 3,400,000*l.* for 1894 is unlikely to be exaggerated, and, indeed, there are evidently good grounds for assuming that such a figure would be approximately correct. It must be remembered, in considering the

estimates for 1894, that the very serious falling off in the revenue, and particularly in the Returns from tithes, must have materially increased the estimated deficit, and consequently, and notwithstanding the usual abandonment and postponement of payments for considerable amounts, the Treasury has been left to face a deficit of alarming character.

The Public Debt.

Particulars of the funded debt.

As regards the funded debt, reliable information is fortunately obtainable. The general settlement of the debt in 1881 affords a clear starting point, and since that date every financial operation of importance connected with the funded debt has been attended with full publicity.

I have compiled a statement (Table IX) showing in detail the position of the funded debt, as arranged in 1881, and giving particulars of all new loans and conversions since that date. From this Table, it will be observed that from 1881 to 1885 there were no transactions affecting the debt, but, that since 1885 such transactions have been numerous, and with a steady tendency to increase the total liability, and the burden of the annual charge borne by the State.

Loans since 1881.

Tables X and VIII show in summary respectively the movement of the funded debt since 1881, and the progressively increasing annual charge since that date. Table X shows that the net increase of the funded debt during the last fourteen years is less than 3½ millions, whilst Table VIII shows that during the same period the annual charge has increased by about 920,000*l.*; and Table XI shows a net amount of over 8¾ millions, encashed by the Treasury for its current necessities, as a result of the financial operations scheduled in Table IX.

Results for the Treasury.

The figures above quoted present an apparent anomaly in the very considerable excess of the sum encashed by the Treasury over the net increase in the funded debt, and in the apparently very high rate of interest (in the aggregate) which the State is paying for the cash obtained by its financial operations. The explanation is, however, to be found on examination of the details of the annexed Tables. In Table X, it is to be noted that nearly 11 millions of the sum paid in reduction of the debt have been paid by annual amortizations, and that something less that 7½ millions have been directly paid off from the proceeds of new loans, thus leaving about 17½ millions of the newly created debt of 24,846,320*l.* to be accounted for. Of the Treasury encashments noted in Table XI, and amounting to about 8¾ millions, the sum of 1,844,200*l.* received on the conversions of the Defence Loan and of the Egyptian Tribute Loan, were realized by operations which in no way affected the capital of the funded debt; consequently, the amount encashed from operations increasing the capital of the debt was less than 7 millions, and we have, therefore, to account for some 10½ millions of new debt, beyond these 7 millions. In Table IX, it will be seen that in addition to the sums encashed by the Treasury for current purposes, nearly 5½ millions of the proceeds of the Customs bonds were employed to pay a floating debt due to the local bankers, whilst, 225,000*l.*, the proceeds of the Daklieh Loan and some 2¼ millions from the Osmanieh Loan, were devoted to the settlement of other internal liabilities. The total of these latter sums is approximately 8 millions, which with 7 millions of Treasury encashments, accounts for 15 millions of the new debt, and the difference between this total, and the 17½ millions of increase in the capital of the debt, may be taken as roughly representing the discount at which the various loans were issued.

Annual charge for debt.

As regards the considerable increase in the annual charge for the funded debt, as compared with the small net increase in the total, and the comparatively small sums which have been encashed by the Treasury, it must be observed (referring to Table X) that the reduction of debt by amortization does not affect the annual charge, and that, consequently, it has been necessary to provide for the service of new creations of debt, amounting to approximately 17½ millions; and, taken on this basis, the increased annual charge of 919,569*l.* will be found to be equivalent to a rate somewhat over 5¾ per cent., which, to include interest and sinking fund, is sufficiently reasonable.

Classification of funded debt.

The funded Public Debt is divided into two main classes: first, the debt on account of those loans the service for which is provided from sources independent of ordinary revenue; and, secondly, the amount of those loans, the service for which is provided from the ordinary sources of revenue.* The first category which includes

* The Tasfieh issued in 1887 is not included in either of these divisions. It is perhaps incorrectly scheduled as a loan, as the only liability of the Government in connection with this issue is to accept the bonds at their par value in settlement of long outstanding claim, for arrears of taxation, &c.

the loans secured on the Egyptian Tribute and the loan of 1855, guaranteed by France and England, is of no importance in considerations regarding the present general financial position of the Empire. The second category, which includes the debt settled in 1881, and the loans obtained since that date, requires full consideration. The outstanding capital of the settled debt still exceeds 95½ millions, or, including Priority Bond, of the 1890 conversion issue, it is still over 103 millions, whilst the various revenues administered by the Council of the Public Debt, and devoted to the service of this liability, now amount to upwards of 2 millions. Besides the settled debt, the second category includes the new series of liabilities, of which the first was contracted in 1885, and the outstanding amount of the new liability is about 17½ millions, involving an annual charge on the revenues of the State of 919,569*l.*

Assignment of revenues for debt.

The arrangement in connection with the settlement of the old debt for a permanent charge on the revenues of the State, has a very serious bearing on the general position of Turkish finance. In accordance with the terms of settlement, a large proportion of some of the most important sources of revenue may, for practical purposes, be considered as permanently hypothecated. From an assumed (though doubtful) revenue of some 15½ millions, several of the best categories, amounting to-day to nearly 2½ millions, have been permanently assigned to the service of the old debt, under the administration of the Council of the Public Debt, and the State derives no benefit from the increasing productiveness of these most lucrative sources of public income. It is true that, from a certain point of view, the arrangement was most favourable to Turkey, for large sums, which the creditors had every right to claim as interest, are annually devoted to amortisation of the nominal indebtedness. This amortisation has hitherto proceeded in a very satisfactory manner, but though the creditors made great sacrifices in the settlement, nevertheless, the fact remains that over 12½ per cent. of the total revenue of the country has been assigned to a foreign control, and as the annual reduction of indebtedness by amortisation does not seem likely to exceed 1,100,000*l.** (the figure which it has now approximately attained), and the total nominal indebtedness still exceeds 103 millions, the final liquidation is evidently so far off that its possible effect, at some indefinite future date, is beyond the limits of practical consideration.†

Floating debt.

Besides the amount of the old and new funded debts, there is a considerable floating debt, the sum total of which it is, however, impossible to determine. The most important item in the floating debt is the sum due to the Ottoman Bank, the precise amount of which I am unable to give, but which a few months ago was over 1,100,000*l.*, and it is not likely to have changed much in the interval. This debt to the bank is not a pressing claim. In accordance with the statutes of the bank, the Government enjoyed a permanent credit of £ T. 700,000, and by subsequent agreement this credit was increased to £ T. 1,000,000. At the date of the issue of the Customs bonds in 1886 the Government owed the bank some 7,500,000*l.*, but this debt was settled, under compromise, from the proceeds of the issue, and a fresh credit was opened, of which the Government has since liberally availed itself. The next most important claim is that on account of overdue salaries, chiefly in Constantinople. It is quite impossible to say what may be the full amount of these overdue salaries, but from what is known on the subject, it is probably not an over-estimate to put it at 1,000,000*l.* A further important sum is due to the heirs of two Galata bankers, who refused to accept the composition offered in 1886, when a settlement was made with the Ottoman Bank and other local creditors. The amount of this claim is, I believe, £ T. 600,000, but it is a claim which daily becomes more difficult to enforce, and it is not likely to cause much anxiety to the Finance Minister. A more serious matter is the claim for arrears on the Russian war indemnity, which amounts to about 525,000*l.* Most unpleasant pressure may at any time be brought to bear to enforce the payment of this claim, and the amount is sufficiently large to render prompt settlement a matter of very considerable difficulty. In addition to these liabilities, there are considerable sums due for the supply of stores and material for the army and marine, and though here again it is impossible to arrive at any accurate figures, it may be fairly assumed that the amount is not far short of 500,000*l.*, and it may quite possibly exceed this figure. The total amount of these known claims cannot be less than some 3¼ millions, and there is urgent necessity for effecting a settlement of at least 1 million.

Railway guarantees.

Besides the funded and floating debts, a further serious liability weighs on the

* Priority Bonds not included.

† See Table XIII.

(Table VII.)—Public Expenditure: 1888 and 1894.

	1888.	1888 Percentage.	1894.
	£		£
Civil List (including allowances to members of Imperial family)	807,878	..	807,878
Ministry of War	6,984,816	..	5,500,000
Gendarmerie	1,000,000	..	910,000
Ministry of Marine	608,300	..	640,000
Ordnance	727,400	..	909,100
Ministry of Interior	700,000	..	727,400
Posts and Telegraphs	300,000	..	310,000
Customs Service	236,400	..	236,400
Mines and Forests	84,500	..	84,500
Religious establishments (including educational)	857,168	..	857,168
Other Civil Administrations and sundries	237,985	..	250,000
Public Debt (payments from Imperial Treasury)	672,219	..	919,569
Russian indemnity	318,182	..	318,182
Railway guarantees (payments from Imperial Treasury)	..	..	270,782
Payments on account of floating debt	1,813,272	..	? *
	15,348,120	..	12,740,979 ?
Public Debt (payments from conceded revenues)	1,863,819	..	2,089,371
	17,211,939	..	14,830,350
Extraordinary Expenditure.			
Ministry of War	898,573	..	? *
Ministry of Marine	241,515	..	
Ordnance	401,079	..	
Sundries	243,636	..	
Total	18,996,842	..	18,190,466

* No data available.

(Table VIII.)—Increased Annual Charge for Debt.

		£
1885.	Increase from 1881	118,174
1886.	" "	568,819
1887.	" "	568,819
1888.	" "	673,819
1889.	" "	673,819
1890.	" "	901,069
1891.	" "	878,569
1892.	" "	878,569
1893.	" "	923,569
1894.	" "	993,169
1895.	" "	919,569

(Table IX.)—Ottoman Public Debt (Funded).—April 1895.

Year.	Classification of Loans.	Nominal Capital.	Interest.	Amortisation.	Price of Issue.	Present Annual Charge.	Date of Final Amortisation.	Amount Outstanding.	Security.	Remarks
		£	Per cent.	Per cent.		£		£		
1854	Egyptian Tribute Loan ..	3,000,000	6	1	80	..	Cancelled	..	Egyptian Tribute	Converted in 1891.
1855	Loan guaranteed by France and England	5,000,000	5	1	80	..	..	3,815,200	French and English guarantee ..	
1871	Egyptian Tribute Loan ..	5,700,000	41	1	73	..	Cancelled	..	Egyptian Tribute	Converted in 1891.
1877	Ottoman Defence Loan ..	5,000,000	5	1	52	..	Ditto	..	.. ..	Converted in 1891.
1881	Priority Bonds	7,427,272	5	..	..	..	Ditto	..	Revenues collected by Public Debt Administration	Converted in 1890.
1861	Converted Debt: Series A ..	7,183,872	1	..	..	Varying	..	1,421,762 (March 1895)	Ditto	The annual charge varies according to the proceeds of the ceded revenues.
1881	.. .. .. B ..	10,241,049	1	..	..	Ditto	..	8,469,305 (March 1895)	Ditto	
1881	.. .. .. C ..	30,832,511	1	..	..	Ditto	..	29,477,171 (March 1895)	Ditto	
1881	.. .. .. D ..	43,968,396	1	..	..	Ditto	..	42,744,465 (March 1895)	Ditto	
1891	Lots Tirés	14,211,407	1	..	..	..	..	13,159,609 (March 1895)	.. ..	Amortisation by purchase from special funds.
1865	Smyrna-Cassaba Railway ..	500,000	7	1	..	..	Cancelled	..	Receipts of the line leased to the Company	The amortisation was to commence in 1891. This debt has been paid off by the concessionnaires of the Smyrna-Cassaba and Extension Railway.
1885	Société de Recouplement Loan	976,290	7	1	103	78,174	1916	836,000 (August 1894)	Receipts of railway worked by the Company	Issued to pay off a debt of £T. 7,500,000 to the Ottoman Bank, and about £T. 325,000 to the Galata Bankers. Balance of 540,000*l.* remained by the Treasury.
1860	Customs Bonds	5,399,080	5	1	..	351,545	..	5,301,280 (March 1895)	Customs receipts in Smyrna, Beyrout, Brousa, Adrianople and Salonica	
1865	Hirsch Loan	320,000	7	1	103	..	Cancelled	..	.. ..	Converted in 1894. Chiefly applied to payment of debts for war material.
1886	Daklieh	225,030	5	4	..	..	Ditto	..	.. ..	Internal loan, paid off in 1890.
1887	Tasdieh	6,300,000	..	..	..	..	..	..	.. ..	Bonds given in settlement of long-outstanding claims on the Government, and received in settlement of old arrears of taxation, &c.
1888	Deutsche Bank	1,500,000	5	2	70	105,000	1933	1,293,030 (March 1895)	Fishery and other dues, surplus of stamp duties, and a charge of 30,000*l.* on Smyrna wheat tithes	
1890	Priority (Conversion) ..	5,827,240	4	1	75	389,400	1933	5,446,240 (March 1895)	Revenues collected by Public Debt Administration	Issued for conversion of Priority Bonds of 1881.
1890	Osmanieh Loan	4,545,000	4	1	78½	227,250	..	4,297,000 (March 1895)	Tithes collected by Public Debt Administration	Issued for redemption of approximately 2,250,000*l.* of Daklieh and Selim Bonds. Surplus retained by Treasury.
1891	Défense Loan (Conversion) ..	6,110,950	4	..	90	240,623	1951	..	Egyptian Tribute	Issued to pay off outstanding balance of Hirsch Loan of 1886. Surplus of 292,078*l.* retained by Treasury.
1893	Tombac Priority Bonds ..	909,100	4	1	70	45,609	..	895,600 (August 1894)	Royalties on tobacco paid by the Tombac Company to the Government	
1891	Ottoman Railway Loan ..	1,600,000	4	0·35	73½	69,600	1958	1,600,081 (August 1894)	The minimum rental of 1,500 fr. per kilom. payable by the Company to the Government	Conversion of 5 per Cent. Loan of 1854 and 4½ per Cent. Loan of 1871.
1891	Egyptian Tribute (Conversion)	8,212,310	3½	..	91	329,249	1955	..	Egyptian Tribute	

(Table X.)—Movement of Funded Debt: 1881–95.

		£
Original debt compounded 1881—		
Series A, B, C, D		92,225,827
Priority Bonds		7,427,260
Lottery Bonds		14,211,407
Total debt, 1881		113,864,494
Amortization, 1881–1895—	£	
Series A, B, C, D	10,122,123	
Old Priorities	1,586,000	
Lottery Bonds	751,798	
Société de Raccordement Loan	161,307	
Customs Bonds	579,800	
Deutsche Bank	185,538	
New Priorities	335,000	
Osmanieh Loan	221,000	
Tombac Bonds	13,500	
Total amortization	13,956,066	
Liquidation by rearrangement or conversion—		
Smyrna-Cassaba	500,000	
Old Priorities	5,811,260	
Hirsch Loan*	900,000	
Dakhlié Loan*	225,000	
Total debt extinguished	21,422,326	
New debt created—		
Smyrna-Cassaba	500,000	
Société de Raccordement Loan	910,000	
Customs Bonds	5,909,080	
Hirsch Loan	900,000	
Dakhlié	225,000	
Deutsche Bank	1,500,000	
New Priorities	7,827,240	
Osmanieh Loan	4,545,000	
Tombac Loan	900,000	
Ottoman Railway	1,600,000	
Total new debt	24,846,320	
Increase of debt		3,423,994
Total outstanding debt		117,288,488

* A small portion of these loans had been paid off by annual amortization before their complete liquidation by new financial operations.

(Table XI.)—Treasury Encashments from Loans: 1885–95.

		£
1885	Smyrna-Cassaba Railway Loan	500,000
1885	Société de Raccordement Loan	936,000
1886	Customs Bonds	540,000
1886	Hirsch Loan	900,000
1888	Deutsche Bank Loan	1,050,000
1890	Osmanieh Loan	1,026,000
1891	Defence Loan Conversion	1,399,600
1893	Tombac Priority Bonds	900,000
1894	Ottoman Railway Loan	292,700
1894	Egyptian Tribute Loan Conversion	444,600
	Osmanieh Loan Balance	750,000
	Total	8,738,900

(Table XII.)—Ottoman Railways and Government Guarantees.*

Railways Working, under Construction, or for which Concessions have been granted.	Length of Line in Miles.	Number of Miles completed.	Amount of Kilometric Guarantee.	Total Government Annual Liability.	Payments on account of Guarantees. 1893.	Payments on account of Guarantees. 1894.	Remarks.
			£	£	£	£	
Smyrna-Aidin	321	321	..	..	..	..	
Smyrna-Cassaba	165½	165½	..	92,400	..	7,359	The guarantee is a fixed sum, and not reckoned per kilom.
Alashehr-Kurdhissar (Smyrna-Cassaba prolongation)	154	..	746·6	184,410	..	..	
Mersina-Adana	43¾	43¾	..	..	..	..	
Haidar Pasha-Ismidt	58	58	412	38,316	..	..	
Eskishehr-Koniah (Anatolian Railway branch)	257	77	514	152,306	..	84	The total guarantee is limited to £197·8 per kilom.
Angora-Caesarea (Anatolian Railway prolongation)	256	..	697·5	287,482	..	..	
Mudania-Brousse	26	26	..	..	..	..	
Jaffa-Jerusalem	50	50	..	..	..	..	
Beyrout-Damascus-Hauran	132	132	..	..	..	..	
St. Jean d'Acre-Damascus	218	..	..	..	..	..	
Damascus-Biredjik	380	..	500	365,900	161,931	199,122	
Ismidt-Angora (Anatolian Railway section)†	302	302	660	291,300	..	..	Government receives 45 per cent. of gross revenue in excess of 7,000 fr. per kilom.
Oriental Railway‡	594½	594½	60	574,287	..	..	
Salonica-Monastir	136	136	572	124,696	..	52,449	
Dédé Aghatch-Salonica (with branches)	318	..	620	317,240	..	11,768	
Totals	3,811¾	1,905¾	..	2,718,337	..	270,782	

* June 1, 1895.

† Including Haidar Pasha—Ismidt section.

‡ Includes following lines: Constantinople–Adrianople–Moustafa-Pasha; Salonica–Uskub–Mitrovitza; Dédé Aghatch–Adrianople; Uskub–Zil-fiche.

(Table XIII.)—Amortization of Settled Debt.

	£
1882–1887.	
Nominal amount of capital amortized	1,788,709
Yearly average amount	357,740
Total cost of amortization	576,056
Yearly average cost	115,211
1887–1892.	
Nominal amount of capital amortized	3,698,230
Yearly average amount	739,641
Total cost of amortization	1,151,712
Yearly average cost	230,342
1892–1895.	
Nominal amount of capital amortized	3,776,560
Yearly average amount	1,258,494
Total cost of amortization	1,513,722
Yearly average cost	504,574

The redemption of Priority Bonds is not included in the above statement, the annual sinking fund for the amortization of these bonds being a fixed sum; and the bonds being redeemed at par, the annual reduction of the capital of this debt is also a fixed amount.

No. 3.

Sir P. Currie to the Marquess of Salisbury.—(*Received September* 16.)

(No. 70. Commercial.)

Therapia, September 11, 1895.

My Lord,

I HAVE the honour to inclose an extract taken from the "Levant Herald" of a speech on the financial position of Turkey delivered by Sir Edgar Vincent, Director-General of the Imperial Ottoman Bank, at a meeting of the shareholders of the Ottoman Tobacco Régie on the 4th instant.

Sir E. Vincent states that, in his opinion, there will this year be a decided improvement both in the quantity and value of the produce of the country over that of last year, which was a very unfavourable one.

It is doubtful whether this sanguine anticipation will be realized. Vallonia is, I am told, lower than it has ever been known before. Mohair, which has risen in price, does not represent a very large amount, while hides, being articles rather of import than export, do not come into the calculation at all.

As a proof of the prosperity of the Ottoman Empire, he states that during the five years ended the 31st December, 1894, debt to the amount of £ T. 7,065,700 has been paid off, while new debt has been created only to the extent of £ T. 4,937,000.

In making this statement, Sir E. Vincent has reckoned as new debt only the net cash amounts paid into the Treasury as a result of the various financial operations, whereas in fact the new debt created is really the difference between the outstanding amounts paid off of the old loans and the new nominal capital of the new loans. Calculated on this basis, instead of a decrease of debt amounting to £ T. 2,128,700 there is an increase of £ T. 917,200.

On the other hand, Sir E. Vincent includes the following reductions of debt, which were omitted from Mr. Law's Report:—

	£ T.
Russian war indemnity	1,937,000
Russian subjects' indemnity	125,000
Haidar Pasha compensation	130,000
Advances repaid to Ottoman Bank	550,000

It should further be noticed that Sir E. Vincent includes in the payments of debt the debt reduced by the Public Debt Council. This has nothing to do with the question with which he was dealing.

The ceded revenues cannot be reckoned among the resources of the Turkish Treasury, and it is evident that, in a contrast between the fresh indebtedness of the Turks and the amounts paid off out of available resources, the operations of the Public Debt Council on the settled debt should find no place; or, if they do, new debt within the "settled debt," *i.e.*, the Priority Converted Loan, should also be included.

If this omission were rectified, it would make a difference of £ T. 2,150,000 against Sir E. Vincent's point of view.

The inclosed Table shows the charges entailed by the new loans raised during the years 1890–95.

Sir Edgar Vincent estimates the eventual charge arising from the railway guarantees at £ T. 1,100,000 a-year, against which he sets traffic receipts, already amounting to £ T. 450,000, with a prospect of steady increase.

Mr. Law had estimated the eventual charge on account of the railway guarantees at £ T. 1,500,000. This includes the Angora–Cæsarea and Damascus–Birejik Railways, which Sir E. Vincent omits probably on the ground that it is doubtful whether the lines will be constructed, and no allowance is made on account of traffic receipts.

I have, &c.

(Signed) PHILIP CURRIE.

Inclosure 1 in No. 3.

Extract from "Levant Herald."

TURKEY, in common with all agricultural countries, owing a considerable gold debt abroad, has suffered severely by the recent fall in the prices of produce. The year 1894 was, beyond comparison, the most unfavourable as regards the general economic conditions which the Turkish Empire has had to traverse within recent experience. I am glad to be able to inform you that reports received from all the more important centres point to a distinct amelioration in the economic conditions. There has been no general rise in prices, but certain articles, such as mohair, hides, and vallonia, have risen considerably, and there is no instance of any great fall in one of the staple products of Turkey. Crops have also been, on the whole, more plentiful than in 1894, and the state of trade of the larger centres and sea-ports is in a sounder condition. I confess to a personal conviction that we have passed the low-water mark in the fluctuations of prices of produce, and I feel convinced that the large increase in the world's output of gold, which has already commenced, and which the closing years of the century will undoubtedly accentuate, must have a considerable effect upon prices, and must moderate the fall produced by increased efficiency of production and increased cheapness of transport, if it does not turn the current in the other direction.

Fears have been expressed of late years that the financial position of the Turkish Government was gradually becoming worse, and that a catastrophe, at no distant date, was not only possible, but probable. I have heard this view expressed by so many people, who ought to have reliable information, and by so many whose interest it is to obtain reliable information, that I think it is worth while to take this opportunity of giving my own view on the subject. The surest means of ascertaining the true position of any individual, institution, or Government is, not to study elaborate budget Estimates or financial Statements, but to ascertain over a period of years what amount of debt they have created and what amount of debt they have repaid. Applying this system to the finances of Turkey, I arrive at the following results: During the five years beginning on the 1st January, 1890, and ending on the 31st December, 1894, the Turkish Government have created new debt to the extent of £ T. 4,937,000, and they have repaid old debt to the extent of £ T. 7,065,700. In other words, they have repaid £ T. 2,128,700 more than they have borrowed. This in itself is not an unsatisfactory position, and you will realize that it is still more satisfactory when I tell you that in this expenditure I have included not only the ordinary, but the extraordinary expenditure. I think the extraordinary expenditure on war material alone has amounted to approximately £ T. 3,000,000. This expenditure should not, in my opinion, be considered as of an annual character, but as extraordinary, and such as might by the most orthodox Finance Minister be legitimately spread over a long period of years.

I now come to the question of the railway guarantees, which are held to be a great danger, and which I myself consider a serious feature in the position. The Turkish Government has guaranteed, upon lines which are either in course of construction or which will probably be constructed in the near future (I leave aside Angora-Cæsarea and Damascus-Bir-ejik), gross receipts to an aggregate amount of £T. 1,100,000 per annum. It is argued by pessimists that this new charge coming upon the Treasury will destroy the equilibrium of the Budget, and cause a financial catastrophe. I should be the last person to minimize the weight of this burden, or to defend the ridiculous system of guarantee under which this charge was created; at the same time, I would point out that the traffic receipts on these lines amount already to £T. 450,000, and that on most, if not all the lines the receipts can be counted upon to increase steadily, so as to reduce in a few years the effective charge falling upon the Government to a sum very greatly inferior. The railways undoubtedly increase the prosperity of the districts which they traverse, and of the districts which they bring into cheaper connection with the sea. The Turkish Government profits directly from these improvements through the customs and many an increase in the tithes, and it profits indirectly through the customs and many other taxes. I feel convinced, therefore, that within a comparatively limited number of years, judging the question from the narrowest financial standpoint, the Treasury will not be a loser by recent railway construction. Judged from the larger and broader standpoint of statesmanship, the country will be a gainer. Taking things at the worst, the amount payable by the Government on account of railway guarantees during the initial years will not be greater than that which it has had during the last five years for war material. I recommend this mode of looking at this question to all who are in any degree responsible for Turkish finance or who are interested in it.

I cannot leave the question of expense without expressing my admiration for the extreme economy with which the finances of the country have been administered under the high control of His Imperial Majesty.

Inclosure 2 in No. 3.

New Loans raised by Turkish Treasury from 1890 to 1895, inclusive.

Year.		Firm price.	New creations.	Reimbursements of amounts outstanding.	Difference between new nominal capital created and capital of original loans outstanding which were paid off.	Remarks.
			£ T.	£ T.	£ T.	
1890	Priorities 5 per cent. converted into 4 per cent. .. £ 7,827,000	Per cent. 74	8,009,700	6,160,000	2,139,700	The Turkish pounds are converted from pounds sterling at the rate of 110.
"	Osmanies 4 per cent. 4,545,000	76	4,999,500	2,500,000	2,499,500	
1891	Defence Loan, 5 per cent. 1877, converted into 4 per cent. 6,316,920	90	6,948,612	1,711,200	2,237,112	
1893	Priorities (Tombac) 4 per cent. .. .. .. £ T. 1,600,000	70	1,060,000	..	1,060,000	
1895	Ottoman Loans (Egyptian tribute), 5 per cent. 1854 and 4½ per cent. 1871, converted into 3½ per cent. . £ 8,212,340	91	9,033,574	7,741,200	1,292,374	
"	Ottoman Loan (Hirsch) .. .. .. Fr. 40,000,000	73½	1,730,000	993,600	856,400	
			33,741,086	15,788,800	7,982,886	

No. 4.

Sir P. Currie to the Marquess of Salisbury.—(*Received September 28.*)

(No. 608.) *Therapia, September 19, 1895.*

My Lord,

I HAVE the honour to transmit to your Lordship herewith copy of a Memorandum drawn up by Mr. Marinitch on the present state of the negotiations for the conversion of the two Turkish Loans known as the "Obligations de Douane" and the "Chemin de Fer de Raccordement" loan.

I have, &c.
(Signed) PHILIP CURRIE.

Inclosure in No. 4.

Memorandum by Mr. Marinitch.

YOUR Excellency is aware that the Turkish Government, with the object of obtaining a sum of over 1,000,000 liras, and thus providing the means of meeting their more pressing wants, made some time ago certain proposals which were accepted by the Ottoman Bank, to the effect that the latter should enter into negotiations with some financial establishments for the conclusion of a loan, the amount of which would be affected to the conversion into one single bond, bearing an interest of 4 per cent. of the bonds of two loans previously contracted, and known, the one as the "Obligations de Douane," amounting to £T. 5,700,000, bearing 5 per cent. interest, and the other as "Chemin de Fer de Raccordement," reduced now to £T. 800,000, bearing 6 per cent. interest and 1 per cent. sinking fund.

It appears that although it was originally agreed upon between the Turkish Government and the Imperial Ottoman Bank that this conversion loan, which is to be reimbursed in fifty-six years by means of "tirage au sort," should be "pris ferme" at the rate of 79; the Sublime Porte endeavoured subsequently to obtain more favourable conditions from the bank, but Sir E. Vincent has declined to accede to the request of the Turkish Government.

The scheme, as far as I have been able to ascertain, was discussed at and approved by the Council of Ministers, and finally submitted for the Sultan's sanction. It appears, however, that Selim Effendi, Minister of Mines and Forests, addressed a Report to His Majesty, stating that the conditions offered by the Ottoman Bank are very heavy. Upon this the matter was allowed to drop.

I am told that Sir E. Vincent, before leaving Constantinople two days ago, had an interview with the Grand Vizier, at which the Minister of Finance was present, and at which the conditions of the Conversion loan were discussed at great length. It appears that no understanding was arrived at owing to the fact of Sir E. Vincent having categorically refused to increase the rate of 79 originally agreed upon.

September 1895.

No. 5.

Memorandum by Sir E. Hamilton on the Turkish Guaranteed Loan of 1855 *and the Cyprus Tribute.*

UNDER the Convention which was signed between Great Britain, France, and Turkey on the 27th June, 1855, a loan of 5,000,000*l.* was raised by the Porte for the prosecution of the war with Russia.

The interest on the loan, which was fixed at the rate of 4 per cent., was guaranteed jointly by Great Britain and France, and an Act was passed by the British Parliament (18 & 19 Vict., cap. 99) providing for the fulfilment of the guarantee of Her Majesty in respect "of such interest as and when the same interest may from time to time become payable, conformably to the tenor of Her Majesty's engagement."

Under the Convention the interest "payable on the said loan," and a sinking fund "of 1 per cent. per annum on the whole capital of 5,000,000*l.*" formed a charge "on the whole revenues of the Ottoman Empire, and specially on the annual amount of the tribute of Egypt, which remains over and above the part thereof appropriated to the first loan" (*i.e.*, the Turkish Loan of 1854), "and, moreover, on the Customs of Smyrna and Syria."

During the next twenty years the Porte fulfilled her engagements with a punctuality to which no real exception could be taken, with the result that the guarantee of the two Western Powers had not to be brought into play, and—

	£
The loan of	5,000,000
was, by means of the sinking fund applied in payment off of drawn bonds, reduced by..	1,184,800
to	3,815,200

Then (in 1875) came the Porte's default, and for some years we had, jointly with France, to provide the interest and get the money back from the Porte as best we could. As a matter of fact, we found the whole of the required money in the first instance, and only recovered from France her share of what we failed to squeeze out of Turkey.

By the occupation of Cyprus, in pursuance of the Annex to the Anglo-Turkish Convention of the 4th June, 1878, we acquired control over part of the "revenues of the Ottoman Empire," viz., the surplus revenue of that island which was payable to the Porte as tribute; and the Cyprus tribute money, amounting, in round figures, to 92,000*l.* a-year, has, together with the assigned portion of the Egyptian tribute (72,000*l.*), enabled us to provide the interest on the Guaranteed Loan.

Thus—

	£
Interest at 4 per cent. on 3,815,200*l.*..	152,608
Expenses of management (undertaken by the Bank of England)	1,144
Total charge	153,752
To meet this charge, there is the available part of the Egyptian tribute, viz.	72,000
Leaving a balance of	81,752
to come out of the Cyprus tribute, viz.	92,000
There is, therefore, an annual surplus on the Cyprus tribute account of (about)	10,000

The Porte has constantly laid claim to this annual surplus and its accumulations; but we have refused to part with the money, contending, under legal advice, that we have a right to retain it, because the Porte makes no payment in respect of sinking fund, and because the sinking fund, equally with the interest on the Guaranteed Loan, was charged on the "whole revenues of the Ottoman Empire," of which the Cyprus tribute forms a part.

The accumulated surplus has been separately invested in Consols, and the present cash value of the accumulations is about 137,000*l.*

The idea has been that, when the accumulated surplus reached an appreciable sum, we should apply it in paying off drawn bonds; the drawing having been regularly continued by the Bank of England, since the Porte defaulted, in spite of there having been no money provided by Turkey to pay them off. And when the sum accumulated amounted to 100,000*l.*, we raised the question of using it as sinking fund.

We, however, were deterred from taking this step, because it was held by the Bank of England that, while Great Britain and France had to provide, if necessary, the interest, the redemption

money had to be provided by the Porte, and that the redemption was therefore vested in the Turkish Government. A reference to the Law Officers would have been made on this point, had it not been for the terms of the bond, which says that "the certificates redeemed, with all the coupons then attached thereto, shall, when paid off, be forthwith cancelled *in the presence of His Imperial Majesty's Representative in London* and of the Chief Cashier of the Bank of England."

In view of this requirement, and the small chance of getting it complied with, when the Turkish Ambassador was continuously pressing to get hold of the very money with which it was proposed to cancel the bonds, it was thought to be useless to pursue further the matter of applying the accumulated surplus in redemption of drawn bonds.

I have reason to believe that the Bank of England are the principal holders of the Guaranteed Loan (I fancy their holding cannot be much less than 2,000,000*l.*); and notwithstanding its liability to be redeemed, the loan stands at a considerable premium. The latest quotation is 115½; it has lately risen, like all other first-class securities. Having been unmolested so long, its holders evidently reckon on an indefinite immunity.

It may be well to note how the City authorities view the position of the loan, and for this purpose to quote what is said about it in the standard work, entitled, "Burdett's Official Intelligence," in which is to be found the number of shares drawn at the end of last year:—

"Interest at 4 per cent. is payable half-yearly at the Bank of England on the 1st February and the 1st August, and, in addition to the interest, a sinking fund of 1 per cent. per annum was to be applied annually in redemption of the capital from the 1st August, 1859, either in the purchase of certificates in the market, or, at the option of the Ottoman Government, by annual drawings in May. The certificates remaining undrawn are now redeemable on six months' notice from the Turkish Government. Since the drawings in May 1875 no bonds have been redeemed, though the drawings take place regularly each year. At the present time the total amount of bonds drawn is 3,879,800*l.*, but 2,695,000*l.* of these have not been paid. Interest is, however, still paid by the guarantors upon these latter bonds, as upon those yet outstanding."

	£
Original loan ..	5,000,000
Drawn and paid off.	1,184,800
	3,815,200
Drawn, but not paid off	2,695,000
Undrawn on 31st December, 1894 .	1,120,200

With reference to the concluding sentence, I cannot think myself—(but I speak as a layman, and it is a legal point)—that the drawing of the bonds has in any way affected the liability of Great Britain or France; in other words, that it has in any way diminished or increased our liability. It must be remembered that that liability was jointly to provide the interest "*when it became payable*," if it was not forthcoming from the Porte; that the interest would be "payable" on all bonds unredeemed, whether drawn or not drawn; and that our guarantee did not extend to the sinking fund.

However that may be, the fact remains that nothing can be more unsatisfactory or wasteful than the present state of things. The Guaranteeing Powers are bound to pay 4 per cent. on a loan, when the credit, at any rate of one of them, is nearer 2 per cent. Under existing arrangements nothing is being done, or apparently can be done, to reduce the liability in respect of this extravagant loan. Cyprus is being mulcted very heavily, and consequently the British taxpayer has constantly to come to her aid. The Porte's reversionary interest in the assigned portion of the Egyptian tribute as well as in the Cyprus tribute is worth nothing.

[I originally drew a scheme for Mr. Goschen in 1888, but I do not think it was submitted in its entirety to the Foreign Office.]

The proposals which I have put forward from time to time, in order to mend matters, have in principle been as follows:—

1. That we should raise a new loan of 3,815,200*l.* on our own credit, hand the money over to the Porte, which has the right to pay the Guaranteed Loan off at par on six months' notice (and presumably the drawn bonds without any notice at all), and get the

Turkish Government to redeem the Guaranteed Loan, stipulating that so long as our debt was undischarged the portion of the Egyptian tribute (72,000*l.*) should be assigned to us.

2. That, in order to induce the Porte to fall in with this proposal, we should undertake to hand over to the Sultan a sum down in discharge of his reversionary interest in the Cyprus tribute. It is a very poor interest as things at present stand; but I have always supposed that without some bribe the Sultan would be sure to decline to look at any proposal.

3. That we should also borrow the sum required to meet this payment down; and that we should charge the revenues of Cyprus with the interest and a moderate sinking fund in respect of this loan, as well as of so much of the loan of 3,815,200*l.* as would not be met by the 72,000*l.* derived from the Egyptian tribute.

If a proposal of this kind could be carried out there would be a gain all round. All parties concerned would benefit.

1. We should be turning our credit to proper account.

2. Cyprus would get an appreciable boon, in which the British taxpayer would have a direct interest.

3. The Porte would get a nice sum down.

4. France would get rid of all liability in respect of her guarantee—a liability which, but for the accidental arrangements connected with Cyprus, would probably have been a very real one.

The exact financial effect of course depends on the amount which it might be deemed necessary to hand over to the Sultan, the terms on which we could raise the required money, and the amount of sinking fund which it might be decided to create. But, in order to show a working scheme, I will assume that half-a-million should be the Sultan's *douceur*—a sum which would seem to be a tolerably handsome allowance, considering that under present arrangements he has not the slightest chance of getting a *sou* out of Cyprus. He might also possibly have an annual sum of a nominal amount—say, 1,000*l.* a-year—paid to him by Cyprus as the outward and visible sign of his continued sovereignty over the island.

[A small sum paid direct would be a more "visible sign" than nothing out of the large sum.]

	£	£
		500,000
If this assumed sum of		
Be added to the amount required to redeem the Turkish Guaranteed Loan, viz.	3,815,200	
Towards which we have in hand	137,000	
		3,678,200
We should have to raise a total sum of ..		4,178,200

I assume first that we borrow in 2½ per Cent. Stock. Our present 2½ per Cents, though redeemable in 1905, are standing at 106. So it is safe, for the present at any rate, to take that figure for the creation of 2½ per Cent. Stock with a longer currency. (We might run the stock till the Consol period of redemption, viz., 1923.)

On this assumption, in order to raise 4,178,200*l.* we should have to create stock to the amount of 3,942,000*l.*

	£
The charge for interest at 2½ per cent. on a loan of this amount would be	98,550
I further assume a sinking fund of (say) ¾ per cent.—a modest one, but a great improvement on the present state of things. The charge annually would be ..	29,565
Total charge in respect of loan ..	128,115
To meet which there would be the assigned portion of the Egyptian tribute, viz.	72,000
Leaving the amount chargeable on Cyprus funds to be ..	56,115
As compared with the present tribute charge of ..	92,000
So the annual relief to Cyprus would be	35,885
In round figures	36,000

(If the sinking fund were increased to 1 per cent. the annual relief would be 26,000*l.*)

Now let us see how the scheme would work out if a 2 per Cent. Stock were created. As the 2½ per Cents. are at a considerable premium, a stock of the lower denomination has no doubt greater advantages; but it is more difficult to appraise the value of a stock unknown to the investing public.

My own belief is, that at the present moment money could be raised on considerably better terms relatively by a 2 per Cent. Stock at a discount than by a 2½ per Cent. Stock at a premium; but there is so much element of speculation about it that I can only give the mathematical price of a 2 per Cent. Stock with a currency to 1923, based on the present price of Consols which are redeemable that year. Allowing for the fall to 2½ per cent. in 1903, Consols at their present price are worth about 2*l.* 3*s.* 6*d.* per cent. to the investor; and the equivalent of that worth in a 2 per Cent. Stock would be 92*l.*

On this assumption, in order to raise 4,178,200*l.* we should have to create stock to the amount of 4,542,000*l.*

The account would then stand thus:—

	£
Interest at 2 per cent. on 4,542,000*l.*	90,840
¾ per cent. account sinking fund	34,060
Total charge	124,900
Deduct Egyptian tribute	72,000
Balance chargeable on Cyprus funds	52,900
As against present tribute charge of	92,000
Saving	39,100
or, in round figures	39,000

As the loan would be gradually redeemed, the annual charge in respect of it would become less and less; but with a sinking fund of ¾ per cent. only, the diminution would of course be a very gradual process. Indeed, I calculate that with even 2*l.* 10*s.* as interest, and 15*s.* as sinking fund—in all, amounting to 3*l.* 5*s.*—it would take about sixty years to discharge the loan.

A scheme, such as is suggested, is, of course, very attractive financially; but it is evident that considerable difficulties may arise in connection with carrying it out. Most of those difficulties are beyond my province, but there are one or two points bearing on them which perhaps I ought to mention.

1. The idea of commuting the Cyprus tribute was seriously entertained as long ago as in 1879. Lord Salisbury had agreed to offer to the Porte a capital sum of 1,300,000*l.*, and the proposal went so far as to be embodied in a draft Agreement, which was to be submitted by the Grand Vizier to the Sultan; but the negotiations broke down, owing, it is believed, to the stipulation which was made that repayment of the commutation money (wholly or in part) should be required, if the occupation of Cyprus were made over to the Porte again. The offer will, no doubt, be remembered at Constantinople, and, therefore, I mention it. But if invidious comparisons are drawn between that offer and any offer that may be made now, it should be remembered that in 1879 no definite arrangement had, as yet, been made with respect to hypothecating the Cyprus tribute to the service of the Guaranteed Loan; and I presume that, before commutation would have been finally agreed to, we should have insisted on the provision of some other Ottoman revenues for the payment of the interest on the loan in consideration of surrendering the tribute money.

[*Cf.* Note forwarded by Mr. Goschen on 10th May, 1881.]

2. It was once held by the Porte that the surplus revenue of Cyprus had been pledged to the administration of the six Indirect Contributions, by the Convention of the 22nd November, 1879, for the service of the general funded debt of Turkey, and, therefore, could not be appropriated to the service of the Guaranteed Loan. Similar arguments might presumably be adduced now against

putting an end to the tribute payment. Her Majesty's Government, however, maintained then that, as the Sultan had alone the title to receive the payment, and the payment could be made to no other person, the Turkish Government had no right to assign the revenue to ordinary creditors. The French Government shared the opinion of Her Majesty's Government, and possibly the Sultan might take a similar view now, with an appreciable pecuniary benefit dangled before his eyes.

3. As the specific assignment to the British Government of a part of the Egyptian tribute may be one of the points of greatest delicacy and difficulty, it might be worth consideration whether that tribute should not get the benefit of the diminished charge year by year on account of the new loan. The prospect of getting back in time, though very gradually, that tribute money would be a great additional attraction to the Porte; and under the arrangement we should not have, as we now have, an indefinite and practically permanent interest in the receipt of a sum raised in Egypt which constitutes part of the Ottoman revenues.

E. W. HAMILTON.

September 18, 1895.

Additional Memorandum.

Lord Salisbury proposes to deal only with that part of the Turkish Guaranteed Loan the interest for which is not covered by the Egyptian tribute, and to get the Sultan to pay off that sum, amounting to 2,015,200*l.*, with money with which we should provide him. He could presumably pay off that amount. For, though the power of redemption on six months' notice which the Sultan reserved in the bond was the redemption of the "whole loan," yet bonds to a larger amount have already been drawn and are awaiting redemption. We must, however, remember that bondholders will not be best pleased at being paid off at par when their bonds stand at 115½, and an aggrieved bondholder might appeal to the other Guaranteeing Power—France—for protection against what he might call sharp practice, and France might well complain that she had not been consulted.

	£
	3,815,200
72,000*l.* = 4 per cent. on	1,800,000
	2,015,200

So I venture to doubt whether it would be feasible, or at any rate politic, to touch the Guaranteed Loan at all without at any rate giving some notice to France. Moreover, partial redemption of the loan would at the best be only a piecemeal arrangement.

I should point out that, though a sinking fund is, as Lord Salisbury says, a liability of Turkey, yet it is a material concern to us, for without it our liability under the guarantee would become a perpetual one instead of a terminable one, as intended by the Convention.

But these are comparatively small points. I understand that Lord Salisbury's main object is to separate the two questions—the Guaranteed Loan and the Cyprus tribute, and I think this object can be attained by a somewhat different plan, which would obviate difficulties with France, and secure a better result all round.

I submit that the first point to raise with the Porte should be simply and solely the commutation of the Cyprus tribute for (say) 500,000*l.* She would probably require some assurance that we at any rate should not ourselves press her to find other money with which to pay the interest on the Guaranteed Loan.

When once this is arranged, we should be practically masters of the situation. Nor, as it is the lucky accident of our having been able to lay hold of the Cyprus tribute that has relieved France of this liability up till now, would France presumably have any real *locus standi* as a complainant.

	£
Present Guaranteed Loan charge ..	153,752
Egyptian tribute ..	72,000
Balance.. ..	81,752

	£
What would happen is that she r Great Britain would become liable to pay annuity half the sum of 81,752*l.*, or	40,876
But in consideration of having relieved Cyprus of paying 92,000*l.* a-year, we might fairly charge this on Cyprus revenues, as well as the charge for the commutation money (500,000*l.*), which I assume we borrow from the Savings Banks on an annuity (2¾ per cent.) for 50 years	18,500
	59,376
Cyprus would still be better off by	32,624
Than she now is with her annual tribute liability of ..	92,000

And her gain is likewise our gain.

We could thus effect an appreciable saving on Cyprus revenues without touching the Guaranteed Loan, without having to approach France, and without increasing the charge on the British taxpayer. All we should lose is the annual Cyprus tribute surplus of 10,000*l.* towards sinking fund.

France would then, probably of her own accord, begin to think that an arrangement of forty years ago, whereby she and this country not only undertook to pay, but had to pay, 4 per cent. on a loan, was a little extravagant, and to suggest a redemption of the old loan.

She could hardly object to the continued hypothecation of the 72,000*l.* Egyptian tribute to herself and this country jointly. A joint Anglo-French loan could not be raised on as good terms as a British loan; but still we should be turning our joint credit to much better account than we now are. The Egyptian 3 per Cent. Guaranteed Loan stands at 107. So presumably we could float a jointly guaranteed 2½ per Cent. Stock at about par, and thus have to create about 3,815,200*l.*

	£
The interest charge would be	95,380
Towards which there would be out of the Egyptian tribute.	72,000
Leaving..	23,380
to be made good by France and ourselves; and in order to gradually get rid of the charge eventually, and thus better our present position, there might properly be set up a sinking fund of (at least) ¾ per cent., involving an annual charge of	28,614
Our annual joint liability would then be (about) . ..	51,994
Or that of each Power	25,997
(Say) ..	26,000

In this case, while France and England would be gradually working their way out of this debt, Cyprus revenues would benefit still more. All that Cyprus would be chargeable with would be:—

	£
1. Annuity in respect of 500,000*l.*	= 18,500
2. Anglo-French Loan charge	26,000
	44,500
As against the present tribute of	92,000
Saving ..	47,500

I have purposely left out of account the sum of 137,000*l.* which we have in hand. Objection might be taken to our applying it towards the commutation money, because we have avowedly retained the surplus for sinking fund purposes connected with the Guaranteed Loan. Moreover, it may be well to have the sum in reserve, in case the present calculations are thrown out by the Porte's insisting upon a larger amount of commutation than half-a-million.

E. W. HAMILTON.

September 27, 1895.

No. 6.

Mr. Herbert to the Marquess of Salisbury.—(*Received November* 4.)

(No. 745.)

My Lord, *Therapia, October* 29, 1895.

WITH reference to Sir P. Currie's despatch No. 608 of the 19th ultimo, I have the honour to transmit to your Lordship herewith a Memorandum which I have received from Mr. Marinitch on the subject of the proposed conversion of the "Obligations de Douane" and of the "Chemin de Fer de Raccordement."

I have, &c.

(Signed) MICHAEL H. HERBERT.

Inclosure in No. 6.

Memorandum by Mr. Marinitch.

WITH reference to my Memorandum of the 14th September respecting the Conversion Loan, I have the honour to report that the Minister for Foreign Affairs informed me yesterday that the Turkish Government had already come to an understanding with regard to certain of the conditions forming the basis of the projected loan.

Said Pasha added that the Turkish Government was still negotiating with Sir E. Vincent, and although the loan had not yet been definitely concluded, the Turkish Government could now obtain an advance.

I have just learnt from private sources that the Imperial Ottoman Bank has paid to the Ottoman Minister of Finance to-day 200,000*l.* on account. Portion of this sum is to be devoted to the payment of the salaries of the Government officials, which are greatly in arrear.

October 23, 1895.